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C O N F I D E N T I A L SECTION 01 OF 02 MUSCAT 000852

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SUBJECT: COMMERCE MINISTER CONCERNED ABOUT FTA, DESCRIBES
IRAN TRADE

REF: MUSCAT 793

Classified By: Ambassador Gary A. Grappo. Reason: 1.4 (b, d).

Summary

1. (C) Minister of Commerce and Industry Maqbool Sultan, long impatient over the slow pace of Free Trade Agreement ratification in Congress, claims he has abandoned hope of any progress and is contemplating suspending the work of Oman's expensive advisers in Washington until prospects improve. The Minister says embarrassment over the FTA is keeping high-level Omanis from the upcoming U.S.-Arab Economic Forum in Houston, and puts in limbo Omani participation in a USG-funded MEFTA trade conference in London in September. He reports that Oman nevertheless stands by its labor reform commitments. The Minister also discussed prospects for increased Omani trade and investment with Iran, and the Sultanate's need for additional sources of natural gas. End summary.

Caught in Partisan Crossfire

2. (C) In a May 27 meeting with the Ambassador, Minister of Commerce and Industry Maqbool Sultan despaired over continued partisan sparring in Congress over the U.S.-Oman Free Trade Agreement (FTA), saying he has "lost hope" for ratification. When the Ambassador noted that the U.S. Treasury Department had finally agreed to remove Oman from the list of states supporting the Arab League boycott of Israel, the Minister tersely replied that that step was several years overdue, and in any event, the boycott never became an issue on the Hill.

3. (C) The Minister said he fully realized that labor rights in Oman was simply the pretext for partisan skirmishing in the House Ways and Means Committee in this mid-term election year. While he claimed not to be taking personal offense over congressional concerns about "slave labor" in Oman, he was alarmed at the daily cost to the Sultanate in legal and consultancy fees for every hour of congressional delay. The Minister said he was seriously considering stopping payment for further such services, believing that Oman's efforts to respond to Congressional ultimatums merely encouraged additional demands. If the battles in Congress are strictly partisan, he said, Oman should step back and wait for the fighting to subside.

No Time to Trumpet FTA at International Fora

4. (SBU) The Ambassador encouraged high-level Omani attendance at the June 26-28 U.S.-Arab Economic Forum in Houston, saying it would be an ideal opportunity for Oman to market itself and the FTA to top business leaders. The Minister reiterated his earlier indications that he could not attend, citing the timeframe as a rare opportunity for him to visit his daughter during her school break in Australia.

5. (C) The Minister added that he would not have attended regardless, given the embarrassing state of the FTA non-ratification. He said he refuses even to grant press interviews on the subject, since any sign of Omani anticipation of the FTA seems to produce further delays in Congress. The Minister affirmed his personal belief in the significant benefits to Oman of the U.S. FTA, and said he fought hard within the Omani government on its behalf. "We saw this as a way to transform our economy. But now I'm helpless. I can't do anything."

6. (SBU) As for attending a State Department-sponsored MEFTA Trade and Investment Conference in London on September 19, the Minister said his calendar was free and that he is

personally interested in attending, but would not formally commit before FTA ratification. He noted that the Omani ambassador in Washington had reported to him that House Democrats suggest delaying ratification until after the October 31 deadline Oman had offered by which to adopt a host of labor reforms. The Minister concluded that such a delay might postpone the FTA vote until 2007.

Standing By Labor Reform Commitments

17. (SBU) The Minister affirmed that Oman was well on-track to meeting its labor reform commitments (made not only to Congress but also to the International Labor Organization) and stands firmly by its deadline. (Note: The Minister of Manpower showed tangible evidence of labor reform progress in a May 31 meeting with Ambassador, septel. End note.) He said Oman's reform efforts will be far simpler than has been the case in Bahrain, assuring the Ambassador that all relevant Omani ministers were fully on board with the reform, and that the Sultan will be far more accommodating than the Bahraini parliament has been.

Prospects for Trade with Iran

18. (SBU) In response to the Ambassador's query, the Commerce Minister described Oman-Iran trade relations as good but modest in volume. As chairman of the Oman-Iran Joint Committee on Trade, he said he had traveled to Iran in February for talks. Oman's Musandam Peninsula is the primary beneficiary of bilateral trade, being a re-export center to Iran for goods mostly purchased in the UAE. Even that trade, however, is well below the levels of a few years ago after the UAE Emirate of Ras al-Khaimah made upgrades to its port facilities. He noted that Musandam residents are complaining to Muscat for similar port upgrades to better compete.

19. (SBU) The Minister said Iran's trade focus is largely on the UAE, Qatar, and Bahrain. Oman is in talks with Iran on an ethylene dichloride project (with Iran to supply the ethylene), but the deal is still under study. Oman is also deeply interested in buying Iranian gas, to be delivered by pipeline into Oman's growing industrial port of Sohar. The Minister revealed that Oman's current gas imports, combined with domestic production, are still inadequate for its needs, but that Oman has yet to convince either Qatar or the UAE's Dolphin project to increase its supplies. The ideal solution would be for Oman to increase its own production, but the Minister evinced little confidence in that prospect. He said Oman was also interested in finding investment projects in Iran, but offered no examples.

Comment

10. (C) While clearly frustrated by the slow FTA progress in Congress, the often petulant Minister is not about to give up on something so important to the country. He doubtlessly expended personal capital to move the FTA through the Omani bureaucracy and approved compromises not previously anticipated, and is eager to receive his laurels. So far, however, we have not heard such complaints from others, either unaware of Congress' activities or simply more patient. GRAPPO